

## Members

Sen. Morris Mills, Co-Chair  
Sen. Beverly Gard  
Sen. Frank Mrvan  
Sen. Glenn Howard  
Sen. Timothy Lanane  
Sen. James Lewis  
Sen. David Long  
Sen. James Merritt  
Sen. Becky Skillman  
Sen. Thomas Weatherwax  
Sen. Gregory Server  
Rep. James Bottorff, Co-Chair  
Rep. Robert Behning  
Rep. Richard Bodiker  
Rep. James Atterholt  
Rep. David Crooks  
Rep. Susan Crosby  
Rep. David Frizzell  
Rep. Brian Hasler  
Rep. Jack Lutz  
Rep. Edmund Mahern  
Rep. Bruce Munson  
Rep. Paul Robertson  
Rep. Scott Pelath  
Rep. David Yount

## LSA Staff:

Brian Tabor, Fiscal Analyst for the Committee  
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# REGULATORY FLEXIBILITY COMMITTEE

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## MEETING MINUTES<sup>1</sup>

Meeting Date: September 14, 1999  
Meeting Time: 10:00 A.M.  
Meeting Place: State House, 200 W. Washington St.,  
House Chambers  
Meeting City: Indianapolis, Indiana  
Meeting Number: 1

**Members Present:** Sen. Morris Mills, Co-Chair; Sen. Beverly Gard; Sen. Frank Mrvan; Sen. Glenn Howard; Sen. James Lewis; Sen. David Long; Sen. James Merritt; Rep. James Bottorff, Co-Chair; Rep. Richard Bodiker; Rep. James Atterholt; Rep. David Crooks; Rep. Susan Crosby; Rep. Brian Hasler; Rep. Jack Lutz; Rep. Edmund Mahern.

**Members Absent:** Sen. Timothy Lanane; Sen. Becky Skillman; Sen. Thomas Weatherwax; Sen. Gregory Server; Rep. David Frizzell; Rep. Bruce Munson; Rep. Paul Robertson; Rep. David Yount; Rep. Scott Pelath; Rep. Robert Behning.

## Morning session

Representative James Bottorff, Co-Chair of the Committee, convened the first meeting of the Regulatory Flexibility Committee at 10:15 a.m. and recognized Co-Chairman Senator Morris Mills. Chairman Mills called on Committee members to suggest topics of their interest for study. He also stated that further analysis of deregulation of the electric industry was prudent before action is taken.

## Issues Concerning Public and Private Provision of Telecommunications Services

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<sup>1</sup>Exhibits and other materials referenced in these minutes can be inspected and copied in the Legislative Information Center in Room 230 of the State House in Indianapolis, Indiana. Requests for copies may be mailed to the Legislative Information Center, Legislative Services Agency, 200 West Washington Street, Indianapolis, IN 46204-2789. A fee of \$0.15 per page and mailing costs will be charged for copies. These minutes are also available on the Internet at the General Assembly homepage. The URL address of the General Assembly homepage is <http://www.ai.org/legislative/>. No fee is charged for viewing, downloading, or printing minutes from the Internet.

### **John E. Koppin, Indiana Telecommunications Association, Inc.**

Chairman Bottorff then recognized John E. Koppin, President of the Indiana Telecommunications Association, Inc. (ITA). Mr. Koppin stated his intention to address the question of whether or not the state of Indiana should be a provider of telecommunications services. Mr. Koppin explained that when the General Assembly created the Intelnet Commission in 1986, the intent was to provide cheaper long distance rates for state agencies, but not to create a full-blown telecommunications provider. He stated that the ITA's position is that the Intelnet Commission and the Indiana Higher Education Telecommunication System (IHETS) have encroached on the domain of private industry.

Mr. Koppin cited the acquisition of several state-of-the-art asynchronous transfer mode (ATM) switches as a prime example of the state system expansion. Mr. Koppin also pointed out that numerous hospitals and schools have begun using the state's services instead of local service providers. He then suggested that legislators should make a commitment to prevent state government from being in the telecommunications business as a provider.

### **Robert Harris, Ph.D., University of California at Berkeley**

Chairman Bottorff then recognized Robert Harris, Ph.D., Professor Emeritus of Business and Public Policy at the University of California at Berkeley (see Exhibit A for an outline of Dr. Harris' remarks). Dr. Harris began his presentation by outlining the rapid change in the development of the Internet and the telecommunications industry. He cited two major reasons for this development: 1) the shift from monopolies to increased competition and 2) the astounding rate of technological improvement. Dr. Harris stated his belief that we are now witnessing a paradigm shift from intermodal competition (AT&T vs. Sprint, for example) to intramodal competition (such as guided vs. wireless telephone service).

Dr. Harris called attention to what he characterized as asymmetry or an uneven playing field. He stated that when a government entity competes with private industry, competition is hindered because the public entity maintains three distinct advantages: (1) it is not required to be profitable to exist, (2) it is not subject to regulation, and (3) it is tax exempt. He also remarked that investment in the telecommunications industry is costly, and it is wiser to let investors take these risks rather than allowing taxpayers to bear the burden if unwise investments are made.

Dr. Harris then gave an overview of the experiences of three other states that undertook large-scale telecommunications projects. According to Dr. Harris, relative failures occurred in California, Iowa, and North Carolina, with Iowa's project costing nearly \$500 million. Dr. Harris concluded by stating his belief that Indiana is a leading state with respect to pro-competitive policies, but that it would be wise to limit the state's role in building an information network so as not to deter private investment. Representative Bodiker asked Dr. Harris how funding for public broadcasting relates to the issues at hand. Dr. Harris stated that if there were critical social or economic content that private industry did not deliver to the public, then there would be cause for government to intervene.

Chairman Bottorff asked for Dr. Harris' opinion on whether or not the state should be involved in a venture such as the current Intelnet Commission project. Dr. Harris said that Indiana's role should be as an advisor to other agencies and as an adopter of the best technology, but that the state should not be building a telecommunications infrastructure. Representative Crooks then asked what would happen when a school or university cannot get the bandwidth required for certain programs or activities from a local Internet service provider (ISP). Dr. Harris recommended that the General Assembly focus on localized problems as they occur.

### **Robert T. Miles, Jr., Sunman Telecommunications Corporation**

Robert T. Miles, Jr., President of Sunman Telecommunications Corporation, was then recognized by Chairman Bottorff. Mr. Miles explained how he had offered to provide Internet service at a low cost to local schools in his southern Indiana community, yet these schools choose to use a state-preferred provider for only \$82.50 per year. Mr. Miles expressed the feeling that it is an appropriate time to re-examine the charge to the Intelenet Commission. Representative Bodiker asked if Sunman's competitors in Internet service provision were regulated, and Mr. Miles responded that they were not.

### **Paul Dauby, Perry-Spencer Rural Telephone Cooperative**

Chairman Bottorff then recognized Paul Dauby, Plant Manager of the Perry-Spencer Rural Telephone Cooperative. Mr. Dauby stated that his cooperative serves Crawford, Dubois, Pike, Perry, Spencer and Warrick counties. He explained that his cooperative's customer base is sparsely populated, with only ten customers per square mile. Mr. Dauby remarked that although the Perry-Spencer Cooperative is progressive with respect to technology, the Intelenet Commission has created an anti-competitive environment which has hurt small telephone cooperatives.

Mr. Dauby expressed his frustration that he was unable to obtain certain documents online from the Access Indiana webpage for his presentation. Mr. Dauby also stated that despite a strong community relationship, the Perry-Spencer Cooperative was not chosen by local schools as an ISP due to the state-preferred provider program. Chairman Bottorff asked Mr. Dauby if the Intelenet Commission's development had affected the Perry-Spencer cooperative's long-range plan. Mr. Dauby replied that losses had already been incurred as a result.

### **Dr. Lee Thompson, Southeastern Indiana Televillage**

Dr. Lee Thompson, Coordinator of the Southeastern Indiana Televillage, was then recognized by Chairman Bottorff. Dr. Thompson briefly related his experiences of working with IHETS, universities, and rural telephone cooperatives. He stressed the importance of wiring rural schools, especially with two-way video, in order for children in these area to have access to the same educational opportunities as other Hoosier pupils. Dr. Thompson noted Georgia's use of "telemedicine", through which general practitioners in rural areas can 'virtually' communicate with specialists at great distances. Dr. Thompson also pointed out that one-third of Indiana's population lives in rural areas, and then cautioned the Committee that many firm location decisions are based on the availability of technology. He added that this is especially true for small and medium-sized firms vital to economic development in smaller communities.

### **Morning session summary, John E. Koppin**

Mr. John E. Koppin then summarized the morning's testimony and restated his belief that Indiana does not need to become a telecommunications service provider. Mr. Koppin acknowledged the need to address situations where private industry may not fully meet the needs of a school or other entity, but stated that targeted subsidies would be a better tool to remedy these situations. Chairman Bottorff then called for a recess at approximately 12:15 p.m.

### **Afternoon session**

#### **Stan Jones, Intelenet Commission**

The Committee reconvened shortly after 1:30 p.m. as Chairman Bottorff recognized Stan Jones, Chairman of the Intelenet Commission (see Exhibit B for the materials accompanying

Mr. Jones' testimony). Mr. Jones described the Commission's responsibilities and accomplishments, including the Access Indiana webpage. He noted that the Intelenet project is not only about the Internet, but also about voice, video, and data transmission. Mr. Jones outlined some of the advantages of using the state's network versus private alternatives. He commented that local networks do not have the capacity to carry wideband streaming video conferences for purposes such as distance learning. Mr. Jones stated that the current direction of the state's information system will ensure that smaller communities are wired and that high quality service and equitable pricing are provided.

Chairman Bottorff asked if the costs of providing such services would decline in the future. Mr. Jones replied that while the technology currently being leased would undoubtedly be less expensive, the nature of consumers to demand more and better services will require continual investment. Chairman Bottorff then asked if Mr. Jones felt the Intelenet Commission was seeking to directly compete with private telecommunications firms. Mr. Jones answered that the Commission is actually in partnership with several private firms, and is only attempting to provide services which would otherwise not be available.

Representative Crooks asked how difficult it would be to broadcast live coverage of the General Assembly during the legislative session on the Internet. Mr. Jones referred to the broadcast of a recent Indiana Supreme Court case and stated that it would be entirely possible using the state system. Representative Mahern then asked if the acquisition of several ATM switches was not a step towards building a network in competition with industry. Mr. Jones clarified that the ATM switches were not bought but are rather leased from Cisco Systems. Representative Mahern inquired about the cost of leasing, and Mr. Jones estimated that leasing expenses were about \$1 million per year for nine ATM switches.

Representative Atterholt questioned if Mr. Jones thought that the private firms did not have the same ability as the state to broadcast live events such as parole hearings. Mr. Jones responded that industry in fact has the capability, and that the Intelenet Commission uses this ability through leasing and other contracts to ensure the delivery of certain content. Chairman Bottorff then asked if Indiana could provide the same level of service if the state were in a less fiscally advantageous position as exists today, and Mr. Jones answered that it could be done.

Chairman Mills asked if any study has been done examining the finances of the Intelenet Commission. Chairman Mills also questioned if the Commission had pursued public/private partnerships in building an information infrastructure. Mr. Jones answered that such cooperation between the Commission and industry exists, but that it was necessary for the state to lease its own ATM switches rather than pay for usage through a private firm in order to maintain cost control.

### **Laura Larimer, Division of Information Technology**

Laura Larimer, Director of the Indiana Department of Administration's Division of Information Technology, was recognized next by Chairman Bottorff. Ms. Larimer described the responsibilities of the Division of Information Technology (DoIT), including ensuring that the information technology needs of other state agencies are met. To accomplish this goal, DoIT contracts with private firms using a system of multiple shorter-term contracts to maintain continuous competition. Ms. Larimer added that DoIT also provides management and stewardship for the benefit of state agencies. Chairman Mills asked about the funding for the Division, and Ms. Larimer answered that it is funded through a \$35 million revolving fund.

### **Dr. John Huie and Dave King, Indiana Higher Education Telecommunication System**

Chairman Bottorff then recognized Dr. John Huie, Chairman of the Indiana Higher Education

Telecommunication System (IHETS). Dr. Huie presented some background information on IHETS, noting that it responded to the Intelnet Commission's request for proposals (RFP) and has since been under contract to develop the state network. Dr. Huie then turned the presentation over to Mr. Dave King, Executive Director of IHETS. Mr. King characterized the current system as an Intranet as opposed to an Internet-based system. He described the system's goal as three-pronged: to provide technology, content, and training.

Chairman Mills inquired about the status of distance learning. Mr. King related that some distance learning programs have already been completed. During one teleconference, as many as twenty-eight Ivy Tech locations were interacting simultaneously. Mr. King added that within one year between 30-50 new sites will be equipped for distance learning. Chairman Mills then asked about the nature of the broadcasting system used in such teleconferences. Mr. King explained that it is a closed system unlike satellite broadcasting, although other methods of transmission have been discussed by IHETS.

### **Richard Higgins, AT&T**

Richard Higgins of AT&T was then recognized by Chairman Bottorff. Mr. Higgins remarked that AT&T was a key supplier of service to the Intelnet Commission and that it supports the Access Indiana program. Mr Higgins also mentioned that AT&T also works with other long distance carriers and local exchanges in this regard.

### **Gerald Keyes, Cisco Systems**

Chairman Bottorff then recognized Gerald Keyes of Cisco Systems. Mr. Keyes explained that Cisco Systems also responded to an RFP from the Intelnet Commission. Representative Mahern asked for clarification on the speaker's role with the Intelnet Commission projects. Mr. Keyes responded that he was an account manager for Cisco's Intelnet contracts. Chairman Bottorff asked Mr. Keyes who Cisco Systems main competitors are. Mr. Keyes stated that Nortel and Lucent would be his firm's major competitors in this particular area.

### **Adjournment**

Chairman Bottorff then thanked the witnesses and the members of the Committee and adjourned the meeting at approximately 2:30 p.m. Chairman Bottorff reminded members of the Committee that there are scheduled meetings of the Committee on the 27<sup>th</sup> and 28<sup>th</sup> of September, but that he thought it would be possible to conclude the Committee's business on the 27<sup>th</sup>, using the meeting on the following day only if necessary.